

Four Cornerstones of an Adaptive Strategy for E&C Companies

By Jason Baumgarten and Rick Tison

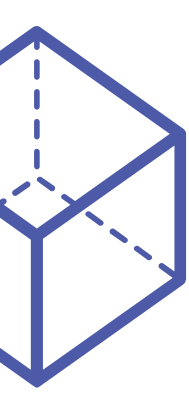


In a world and industry where the pace of change is growing exponentially, this article is a timeless reminder of how the management teams of best-in-class companies should be creating and implementing their strategies. The article was written in 2016 in response to rapid changes in an industry that was finally recovering from the Great Recession.

Back then, industry leaders were in the process of shifting from recovery to how to make the best decisions with limited resources and where to place bets on the most profitable growth opportunities. Fast-forward to today, and the industry has changed substantially and experienced continued strong growth with a limited supply of talent. This has led to significant changes in technology, innovation, project selection and collaborative building models.

Every contractor is dealing with its own particular context, and the “4C Framework” is a practical tool for defining your company’s specific strategy. It starts with clearly defining the four C’s of climate, customers, competitors and company. This is achieved through a fact-based, data-driven approach of research and analysis (and not through opinion). Defining context in this way allows management teams to align perspectives around a common and shared understanding of the current business environment, which ultimately leads to more effective decision-making.

Real strategic change only occurs when everyone on the management team is aligned around the context, the ensuing vision and the strategy itself. With the pace of change moving faster and faster, continuously updating your context—and adapting your strategy to the changing context—will differentiate good strategy from great strategy.



Four Cornerstones of an Adaptive Strategy

By Rick Tison

How leading companies are using context analysis to drive their organizations forward when the foundation for strategy formation is shaky and untenable.

Baseball legend Yogi Berra famously quipped that, “It’s tough to make predictions, especially about the future.” His assertion seems even more accurate today when the pace of change in business, geopolitics, technology and nearly all facets of life seems to be in a constant state of acceleration. Classic approaches to strategy leave business leaders charged with navigating today’s environment feeling ill-equipped. The notion of a “normal” planning cycle no longer applies, harkening back to what we may now view as simpler times. In fact, for the majority of engineering and construction companies, standard three- to five-year business plans are no longer relevant in today’s constantly evolving business environment.

This is a fundamental challenge and frustration for many company leaders. In order to succeed, strategy must align with current and anticipated business conditions while those conditions are ever-changing and hard to predict. The question that is often asked is: How can leaders use strategy to drive their business forward when the foundation for strategy formation is so untenable?

The answer to strategy’s unfortunate reality comes from strategy itself. Put simply, strategy is no more than understanding the

current situation, deciding how best to respond, and acting on those choices. A general assessment of operating in today’s world is that context does not change in easy to foresee ways.

To that end, we present a framework for adaptive strategy that allows leaders to comprehensively assess their business surroundings—or context—in order to identify and monitor key factors influencing their daily “ecosystem.” This allows leaders to develop strategy based on that understanding and then monitor those key factors and adjust as needed throughout implementation.

The model presented is based on several years of successfully analyzing context during strategic planning endeavors with hundreds of executive teams in the engineering and construction industry.

Why Context Matters

Developing strategy starts with an understanding of the current context. Context is the ever-changing picture of your business and its environment that blends the macro drivers of demand, the competitive landscape and customer needs with a company’s

capabilities and constraints. Understanding context creates the foundation for developing meaningful strategy. An effective assessment of context also allows leaders to identify opportunities in the marketplace that the company can exploit—and the challenges it must overcome in the process.

As an example, understanding the outlook for demand through a market forecast without understanding customer and competitive implications is not enough. What if demand is growing but customers are unable to fund necessary investments, as is the case in U.S. water infrastructure? Or what about a segment with significant long-term drivers for demand that is facing tremendous regulatory uncertainty, as is the case in health care design and construction?

In both instances, understanding the drivers of market demand is necessary but not sufficient for making strategic choices. Leaders must also understand how those drivers will translate to customer demand, how that demand is currently being served, how it may be served differently in the future, and how well their business can serve customer needs relative to the competition.

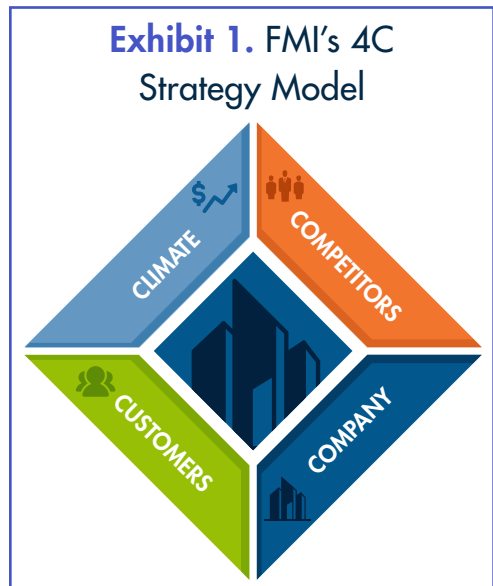
Proactive leaders keep a pulse on key factors influencing their business environment and monitor those external and internal dynamics on an ongoing basis. Indeed, they anticipate and prepare for different contingencies while taking a probabilistic view of the future as it relates to the factors influencing the big picture.

For example, a decline in tax dollars allocated to K-12 education is never good news for a business that depends on those dollars for projects. The relevant question, however, is not simply the directional question—is funding increasing or decreasing?

It is instead one of magnitude—at what percent decline in school funding would K-12 no longer be a priority segment for the business? Identifying the critical factors—and understanding the boundaries of any strategic option—allow leaders to know when to make a change instead of waiting for the negative effects to show up on financial statements (a lagging scorecard for business decisions).

The Power of the Big Picture

A firm's strategic direction ultimately depends on gauging the business environment correctly. Indeed, everyone needs to see and understand the big picture. Unfortunately, when developing and implementing strategy, companies generally lack a meaningful model or tool for assessing and monitoring context. To help fill this gap, FMI has been providing guidance on this topic for several years. The culmination of these efforts, the “4C framework,” provides a practical tool companies can use to evaluate critical elements of context.



Source: Model is based on in-depth industry research

Following is a breakdown of the 4C model and recommendations for leveraging them in today's constantly evolving construction and engineering environment:



Climate

Some of the most common mistakes we see companies make include complacency around market understanding; not conducting thorough research on external market forces (e.g., laws and regulations, technological advances, socioeconomic changes, etc.); and a leadership team that's slow to react and respond to changes.

By understanding the industry outlook for the next six to 12 months, firms can essentially get outside of their own four walls and develop adaptive strategies that factor in not only their own activities, but also those that are taking place around them.

Stock market activity, GDP growth, labor market trends and building cost fluctuations are all examples of key economic indicators that can have a significant impact on a firm's short- and long-term business strategy. These indicators will also help answer questions like:

- What is the demand outlook for our services?
- What are the drivers of that demand?
- How do we anticipate these demands changing over time?



Customers

Not all customers are alike. In fact, research indicates more partnering or long-term relationships among owners, contractors and designers, as well as increased specialization to suit the customer's unique needs. This, in turn, implies the importance of a good match between firm and client.

For example, today's engineering and construction firms realize that customer feedback and maintenance of existing customer relations are crucial to their endurance. Some vital questions to ask when looking at your client base include:

- Who are our current and prospective clients?
- How do they procure our services?
- Why do they buy our services?
- How do they perceive us relative to our competition?
- Are our clients well-positioned for the future?
- Would our clients recommend us to another company?
- How convinced are our clients of our value?
- Where do our missions overlap and where do they differ?

Exploring these questions will not only ensure that you garner honest feedback in areas for potential improvement, but they also reveal the efficacy of your business development and marketing efforts.



Competitors

Short of devolving into commoditized low-bid operations, the smart engineering and construction firm wants to find a long-term space of its own by differentiating its services and targeting its audience with acuity. But when owners are inundated with dozens of proposals for a single project, individual strategy is often muffled by cries of “me too!” When everyone claims to be customer friendly, on budget, on time and superior in technological capability, there is no differentiation. The challenge is for firms to ask themselves, “What makes us unique?”

An effective way to assess your customers’ needs is by modeling your strengths and weaknesses, and those of your competitors. Ask questions like:

- Who are we competing with to fulfill customer demand?
- How do they compete differently from us?
- How do we anticipate the competitive landscape changing over time?
- Where are our competitors’ vulnerabilities?
- Where do our strengths overlap?
- Where are our services and strengths uncontested?

By building a holistic view of all advantages encompassed by your firm’s name—its resources, people, client relationships, assets and culture—you can begin to move beyond the value-cost tradeoff and create new demand.



Company

In today’s fluctuating economic environment, design and construction companies must continually re-evaluate their cultures, core competencies and relationships; assess their competitive environment and client base; and implement strategic and operational changes to adapt to their new surroundings.

If this sounds like it’s easier said than done, there are several paths that design and construction firms can follow to exploit their unique attributes and features. A good starting point is to simply ask yourself questions like:

- How well-positioned are we to exploit market opportunities?
- What are our primary capabilities and constraints?
- What are the value drivers in our business that we can leverage or exploit to outperform the competition and take advantage of market opportunity?

Next, focus on improving your corporate strategy. Use resources efficiently by applying them to the right markets, sectors and clients, for example, and consider sectors related to your core competencies for opportunities to expand. Highlight your firm’s strengths and the services that set it apart. Identify the skills needed to meet future company goals, ensuring that new hires and existing employees can meet future challenges. Finally, align with strategic partners. Collaboration offers an opportunity for growth as well as a way to augment backlog during slow times (and scale up during busy times).

If Change Is Inevitable, It's Time to Brace for It

The pace of change in business—and life in general— isn't expected to slow anytime soon. If anything, there is greater evidence that the pace of change in the engineering and construction industry has nowhere to go but up. Knowing that traditional planning methods no longer suffice, leading engineering and construction firms are finding new and innovative ways to stay out in front of the changes (or at least keep pace with them) while remaining profitable, productive and responsible.

In this environment, construction and engineering firms can no longer focus on setting direction, developing plans and then implementing those plans. Instead, they must clearly understand why certain strategic options are more attractive than others, and then monitor the situation throughout implementation to make sure that prioritization still holds. Taking this course requires a deep understanding of context and the ability to track in real time (and project far enough into the future) to commit the resources of the business. And, while Yogi Berra's assertion may still hold true, it's no excuse not to plan a brighter future for your business.

One strategy expert, Ron Ashkenas, summed up the value of context in relation to adaptive strategy well by noting that managers at all levels tend to assume that their people understand the firm's overall strategy and how their work contributes to it. This is particularly true if high-level presentations, town meetings and videos about the strategy have been disseminated to those team members.

“While these are necessary vehicles for creating context, they are insufficient for really aligning a company's strategy with various goals throughout the organization,” he writes. “In addition, managers at all levels need to periodically bring people together to actively work through the connections. And this needs to be done not just once during the annual planning cycle, but at regular intervals so that new projects, initiatives, and issues are incorporated into the overall strategic fabric.”¹

¹ Ashkenas, Ron; How Leaders Create the Context for Strategy Execution. Harvard Business Review.



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